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RUEHBJ/AMEMBASSY BEIJING 1170  
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RUEHUL/AMEMBASSY SEOUL 0831  
RHEBAAA/DEPT OF ENERGY WASHINGTON DC  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
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RUEAIIA/CIA WASHDC  
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RUEKJCS/SECDEF WASHDC 1268  
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SUBJECT: KAZAKHSTAN: BTA BANK OFFERS TO RESTRUCTURE ITS DEBT

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1. SUMMARY: On July 24, BTA Bank, one of Kazakhstan's largest commercial banks, declared a moratorium on interest payments. This follows the bank's decision in April to cease debt principal payments. BTA's external debts are valued at \$13 billion, of which the bank said it will repay \$3 billion this year. On July 23, BTA managers met with creditor banks and Eurobond holders in London, and proposed establishing a Creditors Steering Committee to negotiate and settle its outstanding debt. BTA outlined its restructuring plan and presented three debt restructuring scenarios. None of the options is very appealing, and under the worst-case scenario, creditors who provided trade finance could lose up to 97 percent of their investment. BTA's creditors said they would continue working with the bank to restructure its external debt and maintain the bank's viability, but they reserved the right to take "any appropriate action" to protect their interests. Last year, BTA's net losses were \$7.88 billion, and its total obligations exceeded the value of its assets by \$4.9 billion. END SUMMARY

#### SYSTEMIC IMPLICATIONS FOR KAZAKHSTAN'S ECONOMY

2. BTA remains one of Kazakhstan's most important commercial banks. As of June 1, BTA was the country's largest commercial bank in terms of assets (2,658.5 billion tenge, or approximately \$17.68 billion) and retail deposits (173.2 billion tenge, or approximately \$1.15 billion). BTA is reeling, however, and cannot meet current debt obligations. BTA's external debts are valued at more than \$12 billion, of which the bank said it will repay \$3 billion this year. The bank urgently needs a new capital injection in order to remain in compliance with Kazakhstan's minimum capital requirements, and is considering two scenarios: a base case that requires \$10 billion in new capital, and a stress case that requires \$12.6 billion. Visor

Capital reported on July 27 that the Samruk-Kazyna National Welfare Fund intends to add \$4.3 billion of capital via debt-to-equity conversion, thereby reducing the amount required to be injected by other creditors to \$5.7 billion (base case) or \$8.3 billion (stress case).

13. BTA's restructuring will significantly influence the structure and stability of the local banking sector and its image in the eyes of Western investors. Restructuring BTA's debt is also an important part of the government's economic recovery plan. On July 24, Kazakhstan's Chairman of the National Bank, Grigoriy Marchenko, said on the Russian television channel "RBK" that "as soon as the situation with BTA and Alliance Bank is settled, we will see positive economic growth in the country."

#### BTA'S RESTRUCTURING PLAN

14. The July 23 meeting with creditors in London was significant for three reasons. First, after declaring a moratorium in April on debt principal payments, BTA Bank declared a moratorium on interest payments as well. Second, BTA managers proposed establishing a Creditors Steering Committee to negotiate and settle its outstanding debt. Third, BTA outlined its restructuring plan and offered creditors three options: (1) BTA would buy back debt from creditors at a discount; (2) BTA would honor long-term debt at face value (par), but at reduced interest rates; and (3) BTA would convert its debt to equity, at a discount to be discussed with the Steering Committee. The creditors said they would continue working with BTA Bank to restructure its external debt, but reserved the right to take any actions they deem appropriate to protect their interests.

#### A BUZZ CUT FOR CREDITORS

15. Those taking the first option would be given a choice to sell their debt for cash at a significant discount, ranging from 55

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percent to 97 percent, depending on whether or not the debt was for trade finance. If BTA Bank's auditors KPMG recommend that it increase the amount of cash on hand to cover non-performing loans (i.e., provisions), then the discount rate would increase to as much as 97 percent. If KPMG does not recommend an increase in provisions, the discount rate would be lower. The maximum cash available under option one is limited to \$1 billion. Under the second option, the maximum number of participants is estimated at 35 percent of the creditor base. The third option would require the participation of 20 percent of creditors. Under this option, conversion to shares of BTA bank would be possible if assets that had been illegally withdrawn from the bank were successfully returned.

#### OUTSTANDING LIABILITIES

16. The Chairman of the Managing Board of BTA Bank, Anvar Saidenov, said at the press conference on July 25 that \$3.5 billion of BTA's debt is expected to be restructured. He added that this amount includes on-balance sheet (\$1.77 billion) and off-balance sheet (\$1.78 billion) obligations to finance trade operations. Saidenov also said that BTA has been a leader of trade financing among CIS countries. BTA bank recommended the Creditors Steering Committee include representatives of Deutsche Investitions-und Entwicklungsgesellschaft mbH (DEG), Euler Hermes, the U.S. Export-Import Bank (Ex-Im), and other export credit agencies and banks that have been active in trade financing.

17. According to BTA's London presentation, 51 percent of the bank's liabilities, or \$6.2 billion, are in bonds; 29 percent, or \$3.5 billion, is trade finance; 20 percent, or \$2.4 billion, are loans (syndicated, bilateral commercial, and bilateral international financial institutions); and the remainder (\$7 million) is in derivatives.

18. The banks that are most exposed to BTA bank are ING Bank with \$626 million outstanding, Credit Suisse with more than \$500 million outstanding, Standard Bank with \$100 million outstanding, and Germany's DEG, with \$74 million outstanding. The Overseas Private

Insurance Corporation (OPIC), jointly with NatCity and Wachovia, holds outstanding debt of \$32 million. In addition, national oil company KazMunaiGas reportedly has more than \$1.3 billion at risk with BTA.

#### THE FUTURE OF BTA IS UNCLEAR

¶9. International auditors have been very reluctant to comment publicly about the future of BTA bank. In comments on BTA's Consolidated Financial Statements, Ernst and Young reported that the bank incurred a net loss amounting to 1,188.05 billion tenge (\$7.9 billion) in 2008 and, as of that date, BTA's total liabilities exceeded its total assets by 742.78 billion tenge (\$4.9 billion). According to Ernst and Young, "These conditions, including current defaults under debt agreements, indicate the existence of a material uncertainty which may cast significant doubts about the Group's ability to continue as a going concern."

#### WHITE (RUSSIAN) KNIGHT

¶10. Despite this bleak outlook, BTA's senior management remains upbeat about the bank's future, not least because Russia's Sberbank has expressed interest in acquiring the troubled bank. BTA Chairman Saidenov said at the July 25 press conference that the chances of such a deal are "rather high," explaining that negotiations are well underway. According to Saidenov, BTA Bank and Sberbank have established a joint working group, and the two banks regularly exchange information. However, Sberbank officials have been reserved in their public comments and continue to insist that their final decision will depend on the outcome of the bank's external debt restructuring program.

¶11. Although BTA's London presentation did not provide specific

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dates for the next steps of the restructuring plan, BTA management intends to press forward with negotiations. Marcia Favale-Tarter, an independent advisor to the Samruk-Kazyna National Welfare Fund, said during the press-conference that all investors are naturally interested in BTA's ability to repay its debts, but should also "understand the meaning of the word 'partnership.' Serious investors will be interested in continuing talks in order to keep BTA Bank viable and healthy."

#### INVESTIGATION OF ABLYAZOV AND OTHER BTA MANAGERS CONTINUES

¶12. Kazakhstani authorities continue to investigate former BTA Chairman Mukhtar Ablyazov and other former top managers of BTA Bank (reftel D). On June 24, the Prosecutor General's office issued an international warrant for the arrest of Kazbek Bektursunov, an assistant to the Mayor of Kyiv. He is suspected of cashing out, at the behest of Ablyazov, 40 percent of the shares of BTA's Ukrainian affiliate. In July, Russian police detained Veronika Yefimova in Moscow. She is BTA Bank's former head of Corporate Business Management and was wanted on embezzlement charges. On July 14, the Prosecutor General's office announced the results of its first case against BTA and TemirBank, a wholly-owned subsidiary of BTA. Twelve members of the credit committees of both banks were charged with embezzlement, and six were found guilty and sentenced to jail. In addition to the jail sentences, the court fined the guilty parties \$670 million and seized 825 apartments, eight offices, and 25 vehicles that were reportedly owned by Ablyazov and other BTA top managers.

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